

2002 Economic Performance and Outlook for 2003/2004

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Underlying Strengths of U.S. Economy

- **Peak earning years for Baby Boomers.**
- **40-year low on interest rates.**
- **Inflation under 2.0%.**
- **Strong housing markets.**
- **Still the world's best market.**

Underlying Strengths of U.S. Economy

- Rebound in GDP to 4.0% in 3rd quarter, up from 1.3% in 2nd quarter but 4th quarter is expected to be 2.0% and 1st quarter of '03 is expected to be 2.5% (Dead Cat Bounce).
- Unemployment rates have stabilized at less than 6.0% April peak. October Rates:
 - U.S. 5.7
 - TN 4.5
- Total U.S. Employment steady at 130.9 million, January to October.

Economic Concerns

- **Mixed Signals Continue:**
- **Consumer Confidence is low but rebounding.**
- **However, terrorist threat and the 9/11 impact continue.**
- **Weak recovery prolonged into 2nd half of 2003.**
- **Threat of a double-dip recession is diminishing.**

Economic Concerns

- **War with Iraq gets nearer (\$100 - \$200 billion estimated cost, deficit financed).**
- **Volatile stock prices leave investors confused.**
- **Corporate scandals continue and profits remain low.**
- **Pricing power weak for most companies.**
- **Rising bankruptcies and weak bank credit quality (Memphis is still the bankruptcy capitol of the U.S.).**

Economic Concerns

- **Four month slide in Leading Economic Indicators finally ended in October.**
- **New unemployment claims falling to recovery levels, less than 400,000.**
- **Taxable sales weak but preliminary Christmas sales are looking positive.**
- **Manufacturing hit hard (-11.5%) – 2.15 million jobs lost since 1998.**

Economic Concerns

- **Factory orders weak but improving.**
- **Car sales fell by 12.7% year over year in November but were still at a seasonally adjusted annual rate of 16.0 million.**
- **Mortgage rates at 30-year low.**
- **Fed Funds Rate (1.25%) at a 40-year low.**

Economic Concerns

- **Corporate profits up, but generated by cost cutting and layoffs.**
- **Layoffs—2.5 million in 2001 and 1.6 million since 9/11.**
- **Payrolls fell in September and October but have rebounded slightly.**
- **Income growing at slow rate.**
- **Saving up and consumer spending down.**

State and Local Conditions of Interest

Tennessee Personal Income is Rebounding

Period	Personal Income	% Change Previous Quarter	% Change Previous Year
2001.1	154,051	+ 0.99	+ 4.24
2001.2	154,840	+ 0.51	+ 3.49
2001.3	155,587	+ 0.48	+ 2.74
2001.4	155,165	- 0.27	+ 1.72
2002.1	158,609	+ 2.22	+ 2.96
2002.2	159,901	+ 0.81	+ 3.27

In millions of seasonally adjusted dollars.

Source: Bureau of Economic Analysis.

State and Local Conditions of Interest

- **Manufacturing hard hit—structural and cyclical declines coincide.**
- **In 2002 Tennessee has had 168 Plant closures and 75 were in manufacturing (21 closures were in Shelby County).**
- **Recession has destroyed thousands of job opportunities for low wage and high wage workers.**

State and Local Conditions of Interest

- **Closure and mass layoff accounted for 21,382 job losses in Tennessee in 2002 (2,790 in Shelby County).**
- **Weak back-to-school and sub-par Christmas retail sales could cause tax revenue shortfalls in Tennessee.**

State and Local Conditions of Interest

- Rising need for social services, including TennCare, will result from lagging economy and rising poverty rates.
- In October, 38.0% of Tennessee counties had unemployment rates higher than the nation with many over 10.0%.
- Conversely, 62.0% of Tennessee's counties had unemployment rates lower than the national average of 5.7%.

State and Local Conditions of Interest

- Since 2000, Employment in the Memphis MSA and Tennessee has grown very slowly.
- September 2001-2002, Memphis MSA lost 11,500 jobs and 3,600 were in Manufacturing.
- Employment growth in the Memphis MSA has been positive but very low in 2002 - unemployment remains low (4.7% in October).

What Will It Take to Stimulate the Economy?

- **Improvements in consumer attitudes.**
- **Government begins investing in America:**
 - 1. Airport**
 - 2. Roads**
 - 3. Schools**
 - 4. Technology**
 - 5. Health Care**
- **Businesses begin to make profits.**
- **Tax cuts for investors and consumers.**

When Will Things Get Better?

- **Expect slow growth rates to continue through first half of 2003.**
- **Too many weaknesses exist and too few realistic solutions exist to expect rapid recovery.**
- **But, 2003 will be better than 2001 or 2002.**